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SUBJECT: ELECTRICAL WORKERS, UNION COMPLAINS ABOUT THE HIGH COST OF ELECTRICITY

REF: MEXICO 1816

¶11. SUMMARY: During the week of May 14, the Mexican Electrical Workers, Union (SME), an organization closely tied to Mexico's main opposition party, launched a charm offensive lamenting the high cost of electricity for average consumers. According to the SME, the cost of electricity to the average consumer increased 285 percent during the six year administration of former Mexican President Vicente Fox. Moreover, the SME says, nearly half of the 13 billion peso deficit (over USD 1.2 billion) accrued by its employer, the state-owned Central Light and Power Company (LyFC), results from the fact that federal, state and local governments do not pay their bills. Labor leaders in other unions, a businessman and a knowledgeable labor lawyer expressed skepticism about what they view as the SME's newfound concern for the Mexican consumer. These labor observers speculated that the SME's charm offensive is mostly likely a preemptive move prompted by rumors that the Mexican government was contemplating some form of action to reign in one of the most combative and politically partisan labor unions in the country. If this rumor proves to be true, it would be the first time the administration of Mexico's current President, Felipe Calderon, has moved to discipline any of the country's major labor unions. END SUMMARY.

SME: A SMALL(ER) UNION FIGHTING FOR THE LITTLE GUY?

¶12. The Mexican Electrical Workers Union (SME) is the smaller of Mexico's two such unions. Its estimated 40,000 members work for the government-owned Central Light and Power Company (LyFC) which provides electricity to 24 million people in the Greater Mexico City area and the larger part of five neighboring states. The SME refers to itself as one of a new breed of &independent unions8 in Mexico in the sense that it is not formally associated with any of the country's major political parties. In reality, the SME is closely linked to the country's main opposition political party, the Party of the Democratic Revolution (PRD) and it one of the most combative and politically partisan labor unions in Mexico.

¶13. SME members can often be found at the barricades or in the forefront of a wide range of politically motivated

demonstrations protesting government policies which they believe are in conflict with the union's avowedly leftist principals. For example the SME can always be counted on to protest the privatization of anything. In fairness to the SME, their strong stand against privatizations, especially in areas related to the country's energy sector, are widely shared by a significant percentage of Mexico's population.

¶4. With some 40,000 members the SME is small but only in comparison with Mexico's other electrical workers union; the Sole Union of the Electrical Workers of the Mexican Republic work (SUTERM). SUTERM's union members are employed by Mexico's Federal Electricity Commission (CFE). The CFE and the estimated 70,000 members of SUTERM generate and provide electricity to the other 27 states in Mexico (compared to the five states and Mexico City covered by the SME and its employer the Central Light and Power Company (LyFC). The CFE generates 97% of the electricity sold by LyFC. In practice, LyFC is only a distribution company. . That said, SUTERM, allied with Mexico's former ruling PRI, is probably as opposed to the privatization of Mexico's electricity sector as the SME. The main difference between the two unions on this point is that the SUTERM is reportedly trying to become a modern and efficient power company thereby showing it can obtain the hoped for benefits of privatization without being privatized. The SME's preferred response to possible privatization is massive street demonstrations in which they proclaim themselves to be the protectors of the nation's patrimony.

IT'S THE GOVERNMENT'S FAULT

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¶5. During the week of May 14 the SME launched a charm offensive to protest the high cost of electricity for the average Mexican consumer. The charm offensive consisted of a series of radio interview and press conferences aimed at getting out their messages. The message, according to the SME, was that the cost of electricity for the average Mexican consumer increased 285 percent during the six year administration of former President Vicente Fox. The SME partially blamed this increase on an ill-conceived rate structure implemented during the Fox administration. This rate structure, the SME said, favored businesses and large users of electricity at the expense of small and domestic (private homes) users. The SME also accused the Fox administration of eliminating subsidies that had helped to contain the cost of electricity to families. Consequently, the SME averred, electricity for small users is now twice as expensive as it is in the US.

¶6. Moreover, the SME claimed, the situation in the area of power distribution covered by the LyFC is complicated even more by the fact that company now has a deficit of 13 billion pesos (over USD 1.2 billion). Almost half of this deficit, the SME says, is a direct result of the fact that all levels of government (federal, state and local) - routinely fail to pay their electricity bills. One of the worst offenders, the SME stated, was the municipal government of Mexico City, in its press conferences the SME made a concerted effort to explain that its employer, the LyFC, is powerless to collect from federal government agencies, hospitals and water companies when these organizations refuse to pay their electricity bills. Mexican government sources refute this noting the Federal Government and the Mexico City Government do pay their bills, but the five states and many municipalities surrounding the capital are in arrears. Additionally, new state and local administrations regularly refuse to pay the debts left by their predecessors. (Comment: The SME also alleged that &Los Pinos8, the Mexican White House, was among a long list of offenders that habitually fails to pay its electric bills but this allegation has been denied by federal authorities.)

¶7. (Electricity rates are actually set by the federal government) The main SME spokesperson during the charm offensive, Exterior Secretary Fernando Amezcuia, expressed concern over what he said was a public perception that the union was largely responsible for the high cost of electricity in the LyFC area. Amezcuia noted that the public appears to believe that the high cost of SME salaries (Reftel) and benefits (SME,s 40,000 members get free electricity) are the reasons that electricity in the LyFC area costs so much. In fact, rates are set by the federal government. LyFC,s billing does not cover its own costs for a variety of reasons including (1) many of the Sates and municipalities do not pay for the electricity they use. (2) LyFC suffers from massive electricity thefts. and (3) LyFC,s unions garner very high wages. He firmly denied this and advised that the union was currently working with two Federal Deputies (equivalent to US Congressmen) to legislate an entirely new schedule of rates that would more fairly adjust the cost of electricity to all users. One government source noted that both CFE and LyFC receive payments from the federal government to ensure that operating costs are covered. He added that the government finds it useful to adjust these payments to treat the firms differently based on political considerations.

GENUINE PUBLIC CONCERN OR ENLIGHTEND SELF-INTEREST

¶8. There is no doubt among businessmen, labor lawyers and even other unions that Post,s Labor Counselor has contacted that the cost of electricity in Mexico, and especially in the LyFC area, is much more expensive than it should be. To the extent that the SME charm offensive would focus attention on the high cost (and some hoped the quality) of electricity in Mexico, all of these observers welcomed the SME,s efforts to begin a public discussion on the issue. However, all of these labor observers expressed doubts as to the SME,s motives.

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¶9. None of Post,s labor contacts knew the reason for the SME charm offensive but several speculated on a rumor they had heard about the union. (Comment: Labor Counselor has been awaiting a promised meeting with the SME for several months.) According to this rumor, Mexican President Felipe Calderon,s administration was contemplating some as yet to be determined action to reign in the political activities and combative attitude of the SME. Consequently, Post,s labor contacts conjectured, the SME,s newfound concern for the consumer was really just a preemptive move to defend itself from whatever action the GOM might be contemplating. Thus far there has been no publicly available information to confirm the rumor relayed by post,s labor contacts. Moreover, since talking office in December of 2006, the Calderon administration,s dealings with Mexico,s organized labor unions have been characterized by negotiation and conciliation and not/not by confrontation.

COMMENT

¶10. The SME,s concern for the high cost of electricity in the LyFC area is undoubtedly justified. There appears to be no easily explainable reason why cost of electricity to the average Mexican consumer should twice as high as electricity in the US. There are a wide range of technical reasons such as outdated technology or inefficient distribution systems that explain the price difference in electricity between Mexico and the US. However, the SME said nothing about possible technical reasons for the high cost of electricity and to the extent that it said anything about the LyFC it only pointed out (correctly) that it was the government and

not the unions that sets rates for electricity.

¶11. Almost the entire argument made by the SME was that the high cost of electricity was the fault of the administration of former President Fox. No specific mention was made of the Calderon administration in the charm offensive that began May 14, but the SME has rarely passed up an opportunity to support the PRD in criticizing the current Mexican government on a wide range of issues (the rising cost of tortillas, the low minimum wage, pension and health care systems reforms for civil service employees, fiscal reform and the list goes on). Given the negative attitude the SME has had toward the Calderon government it would not be unreasonable for the current administration to react in some way to what it might see as provocation. However, such reaction would be out of character for the way the current GOM has managed its relation with the country's organized labor unions.

¶12. It is certainly possible that SME is bringing attention to the high cost of electricity in Mexico as a service to the public. However, as an editorial in an openly labor friendly newspaper pointed out, it would have been much better if the SME had raised its concerns for the consumer during the previous administration when the price raises in the cost of electricity were actually taking place.

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